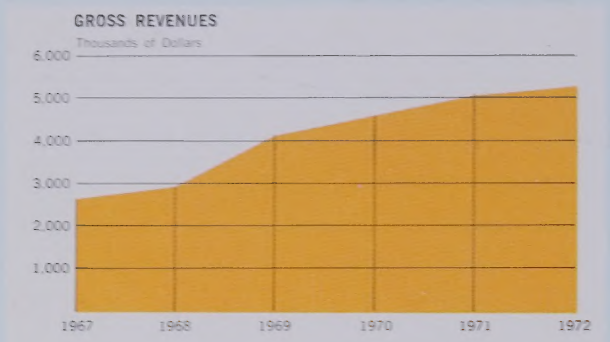
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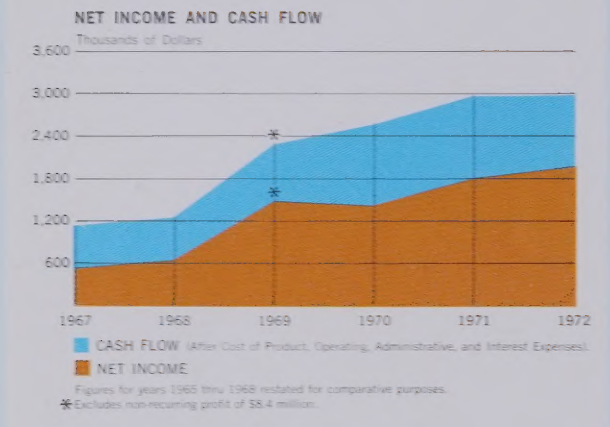
NORTH CANADIAN

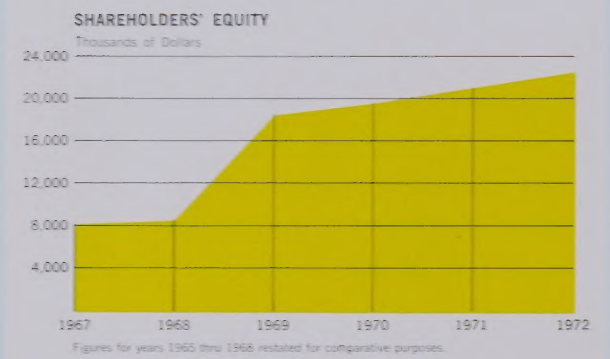
OILS LIMITED □ A NATURAL RESOURCE COMPANY

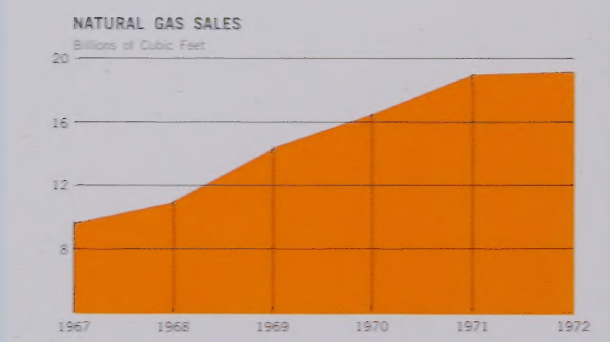


Twenty-Sixth Annual Report 1972









COVER

Drilling at Nose Creek in the foothills of the Rocky Mountains (Alberta). This well, in which North Canadian has a working interest, is scheduled to be the deepest exploratory test ever drilled in Canada — 18,200 feet.

THE YEAR AT A GLANCE

(with comparative figures for 1971)

	1972	1971
Financial		
Total Income (Before Royalty)	$ 5,167,317	$ 5,116,029
Cash Flow (after cost of product, operating, administrative and interest expenses)	2,904,471	2,938,760
Per Share	52¢	52¢
Net Income	2,030,006	1,825,001
Per Share (after provision for preferred share dividend	34¢	30¢
Operating and Administrative Expense	1,620,032	1,474,192
Expenditures for:		
Exploration	1,034,000	1,305,385
Development	1,427,000	600,745
Shareholder Equity - December 31st	23,115,578	21,222,007
Production and Sales		
Natural Gas Sales		
Production - billion cubic feet	14.3	14.5
Pipeline - billion cubic feet	4.8	4.6
Total sales - billion cubic feet	19.1	19.1
Average sales per day - million cubic feet	52.4	52.4
Oil Production - barrels	68,919	58,540

Estimated Proven Recoverable Reserves — Remaining 31 December, 1972	Gross	Net
Gas - Billion Cubic Feet	692	597
Oil - Barrels	962,350	820,600
Land Holdings December, 1972	**Gross**	**Net**
Developed Acres	212,120	171,615
Undeveloped Acres	2,939,572	764,570
Total	3,151,692	936,185

ANNUAL MEETING

The 1973 annual meeting of shareholders will be held Thursday, April 26th, 1973 at 1:30 p.m., Calgary Inn, Calgary, Alberta, Canada. A formal notice of this meeting, together with proxy statement and form of proxy, has been mailed with this report. All shareholders who are unable to attend the meeting are urged to sign and return their proxies as soon as possible.

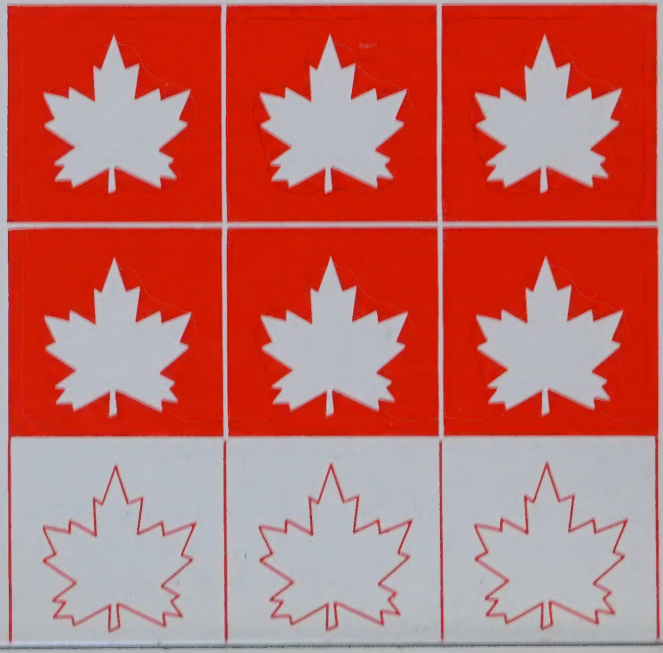
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NORTH CANADIAN

Oils Limited ☐ A Natural Resource Company

INTERIM REPORT

For the Six Months ended June 30, 1972



North Canadian Oils Limited
640 Seventh Avenue S.W.
Calgary, Alberta T2P 0Y5

ALCRAFT : CALGARY
LITHOGRAPHED IN CANADA

To the Shareholders:

North Canadian's net income for the six month period ending June 30th was $942,000, or 15.8¢ per common share (1971 — 16.5¢). Cash flow, determined after the deduction from gross revenue of all direct charges for operations, administration and interest, was $1,436,000, or 25.6¢ per share (1971 — 26.9¢). Though both figures are slightly down from comparable figures in 1971, it is anticipated that the drop, due primarily to a seasonal reduction in gas sales to the Saskatchewan Power Corporation, will be compensated for in the last half of the year.

During this period your Company drilled a total of sixteen development wells, all of which proved successful. Six of the new wells were on the Company's producing properties at Atlee-Buffalo (Alberta), and ten were drilled to supplement the Company's production in the Hatton gas field of Saskatchewan. As stated in our last interim report, an evaluation of the Milk River formation in the Hatton area is planned with four test wells to be drilled in early September. On the basis of available information, it is anticipated that the results will materially enhance the Company's proven gas reserves.

In exploration North Canadian Oils has joined with Union Oil of Canada and others in the drilling of an exploratory test well that is expected to be the deepest hole drilled to date in Canada. The well, which is principally a gas prospect, is projected to a depth of over 18,000 feet. It is located on a large, well defined foothills structure in the Nose Creek area of Alberta approximately 55 miles southwest of Grande Prairie. Scheduled to commence in September, it will test a number of potentially productive zones down to and including the Devonian. North Canadian's interest in the Nose Creek well is 22½%, second only to the interest held by Union Oil. After recovery from production of its proportionate share of the drilling costs, North Canadian will retain an interest of approximately 11% in the well and adjacent land play covering a spread of 47,000 acres.

The first of two exploratory wells to be drilled on North Canadian's land holdings in the Northwest Territories by CanDel Oil Limited and its partners was abandoned in early June at 6,961 feet. The second well under the Farmout Agreement is to be drilled during the coming winter season. It will be the first well to be located on the basis of the extensive seismic program completed last winter by the CanDel group. The Farmout arrangement covers an area of 2.3 million acres in which North Canadian owns a 25% interest.

In Nova Scotia good progress is being made in the Company's search for salt deposits suitable for the development of underground caverns for the storage of liquefied petroleum gases (LPG's) and other petroleum products. The first core hole, located six miles from deep water port facilities has been completed to a depth of 2,200 feet, and the cores are now in Calgary for laboratory analysis. On the basis of their visual examinations in the field, the results appear highly encouraging.

On July 29th the Alberta Government announced the details of its "Natural Resources Revenue Plan" to be implemented on 1 January, 1973. Although designed to extract an additional $70 million from the petroleum industry, the Plan will have little impact on North Canadian's revenue. Furthermore, the various exploration incentives presented in conjunction with the Plan could be of material future benefit to the Company. Further comments with respect to the Plan will be included in a later report after there has been more time to study and digest its contents.

August 11, 1972

Robert F. Ruben

ROBERT F. RUBEN
President

Statement of Source and Use of Funds

for the six months ended June 30th, 1972

(with comparative figures for 1971)

	1972	1971
Source of funds		
Operations:		
Net income for the period	$ 942,000	$ 982,000
Add: items not involving a current outlay of funds:		
Depreciation and depletion	334,000	310,000
Deferred income taxes	20,000	40,000
Funds provided from operations	$1,296,000	$1,332,000
Reduction in other assets	6,000	85,000
Proceeds on issue of common shares	9,000	—
	$1,311,000	$1,417,000
Use of funds		
Additions to property, plant and equipment	$ 798,000	$ 808,000
Addition to investment	119,000	8,000
Reduction of long-term debt	10,000	10,000
Redemption of preferred shares	53,000	52,000
Preferred share dividend	60,000	63,000
	$1,040,000	$ 941,000
Increase in working capital	$ 271,000	$ 476,000
Working capital at January 1	717,000	683,000
Working capital at June 30	$ 988,000	$1,159,000



ROBERT F. RUBEN,
President

TO THE SHAREHOLDERS:

Highlighted by a record net profit of $2,030,006 or 34¢ per common share, 1972 was an exciting and eventful year for North Canadian Oils. Noteworthy among the Company's accomplishments were the discovery of over two hundred billion cubic feet of additional net proven gas reserves, the negotiation of higher gas prices for a substantial part of its production and pipeline sales, entry into two major exploration ventures and the filing of three applications for foreign offshore concessions.

Recoverable reserves of gas or oil are the prime asset of every producing company. The replacement of these reserves as they are depleted by production is essential to its continued operation. In 1972 North Canadian increased its estimated net recoverable gas reserves to 597 billion cubic feet from 393 billion cubic feet at the beginning of the year. It is of particular significance that the new gas discovery gives the Company an estimated 245 proven drilling locations for future development.

In keeping with the times, the Company successfully negotiated higher prices for two of its principal gas sales contracts. Full benefit of the new prices, which apply to approximately 23% of the Company's production and 37% of its sales from the Hinton Pipeline, will be reflected in 1973 revenue.

In mid year North Canadian turned its search for gas to the foothills of the Canadian Rockies where a major gas play has developed in the provinces of Alberta and British Columbia. The drilling is deep and costly but the reward of success can be a discovery of between one and two trillion cubic feet of gas. North Canadian holds a working interest in two foothills wells now drilling, one of which is scheduled to be the deepest exploratory test ever drilled in Canada.

With the acceptance of Canadian independent oil companies by foreign governments clearly established, North Canadian has in the past year filed applications for offshore explorations permits with the governments of Italy, Spain and Bangladesh. Announcements of awards by the respective governments are expected over the next several months.

North Canadian's future could be greatly influenced by the turn of events in the current year. Success in either of the two foothills wells or in the exploration program being conducted on the Company's holdings in the Northwest Territories, would be highly significant. There is the possibility that the Company will by year end be directly involved, for the first time, in offshore exploration, and a decision should be made in 1973 on the direction of the proposed gas storage installation in Nova Scotia. A favourable conclusion to any of these ventures would materially broaden North Canadian's revenue base and provide added potential for significant growth of the Company in the years ahead.

As to the immediate future, record revenues and earnings are again expected in 1973. Gains, however, will be partially offset by increasing costs of operation and payment of the higher crown royalties on production recently implemented by several of the provincial governments. The decision of the National Energy Board, to assume control of the export of Canadian crude oil should have little effect on the Company.

Despite certain areas of genuine concern, such as increasing government intervention at the federal level, and the demands from the provincial governments for a greater share of production revenue, the outlook for the Canadian petroleum industry remains very favorable. Assuming that no additional major hinderances are placed in the way, there is no foreseeable change in the increasing demand for the industry's products and higher field prices appear inevitable for both gas and oil.

It is with a sincere regret that we inform you of the pending retirement of Mr. C. H. Reid, as Secretary-Treasurer and a Director. In the twenty-two years in which he has been associated with North Canadian Oils, Clive Reid has played an important role in the management of the Company. While his presence and valued counsel will be greatly missed, we wish him well on his retirement.

The management and directors take this opportunity to thank the employees of North Canadian Oils, without whose continued loyalty and hard work the accomplishments of the past year would not have been possible.

Respectfully submitted on behalf of the Board of Directors.

Robert F. Ruben

ROBERT F. RUBEN,
President

March 2, 1973

FINANCIAL

Revenue and Expenses:

North Canadian's gross revenue of $5,167,000 for the year established a new level of achievement for the Company. Revenue after the payment of royalty was $4,934,000 in 1972 compared to $4,858,000 in 1971. Operating and administrative expenses of $1,620,000 reflected an increase over the previous year as did charges for depreciation and depletion. However, this increase was partially offset by reduced charges for non-productive exploration and lower interest costs.

Cash Generated:

Cash generated from operations was $2,905,000 or 52¢ a share, compared to $2,939,000 in 1971. This figure represents the funds available to the Company for exploration and development, retirement of debt, payment of preferred share dividends and income tax.

Net Income:

Net income after providing for income tax reached an all time high of $2,030,000 or 34¢ a share, an 11% increase over the $1,825,000 and 30¢ a share attained in 1971.

Capital Expenditures:

Expenditures for exploration drilling, geophysical operations and acquisition of lands available for future exploration amounted to $1,034,000. Expenditures for acquisition and development of proven acreage was $1,427,000. The total expenditure of $2,461,000 was $555,000 higher than the 1971 figure of $1,906,000.

Working Capital and Long Term Debt:

At the end of 1972 working capital of the Company was $698,000 and long term debt was $6,712,000 compared to $717,000 and $6,681,000 respectively in 1971.

EXPLORATION

North Canadian participated in the drilling of eight exploratory wells during 1972. Four wells in which the Company owns a 100% interest were completed as gas wells, one in which it has a 25% interest was completed as an oil well, and three were abandoned. The oil well, located at Cherhill, Alberta, is yet to be fully evaluated. Three other wells drilled by others on lands in which North Canadian owns an interest, resulted in the completion of one oil well and two abandonments.

North Canadian's greatest exploration success in 1972 was the discovery of substantial Milk River gas reserves on the Company's producing properties in the Hatton Gas Field of Saskatchewan. Found at a depth of 1400 to 1500 feet, the Milk River formation is entirely separate from the deeper Medicine Hat formation from which the field is currently producing. On the basis of four successful Milk River wells, located as distant as ten miles apart, the volume of net recoverable reserves attributable to the Milk River formation is estimated to be in excess of 200 billion cubic feet.

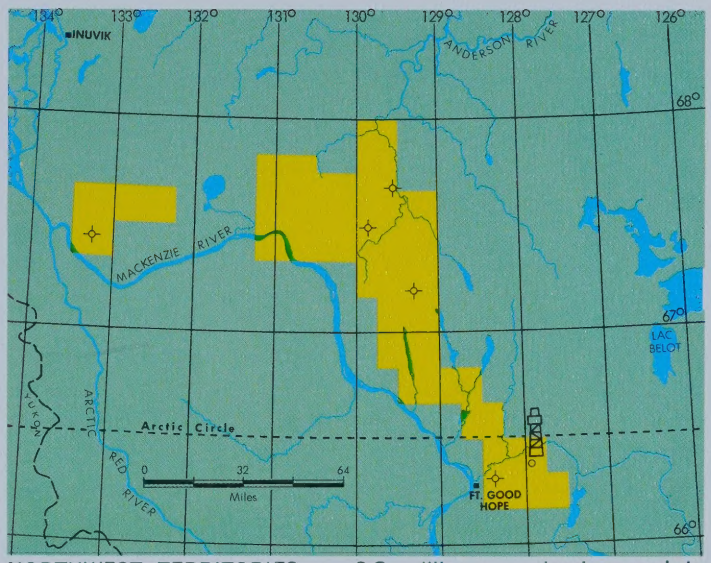


Completing a Milk River gas discovery well on company owned lands at Hatton, Saskatchewan.

In its continued search for a major gas discovery, North Canadian has in the past year taken a participating interest in two deep exploratory tests now being drilled in the gas prone foothills of the Canadian Rockies. The first is at Nose Creek, Alberta, approximately 60 miles southwest of the town of Grande Prairie. Started in November of 1972, the well will take approximately ten months to reach its projected total depth of 18,200 feet. It will evaluate several highly prospective formations, any one of which has the potential of containing major reserves. Operator of the Nose Creek well is Union Oil Company of Canada who has a 50% working interest. North Canadian, the second largest participant, has a 22½% interest until recovery of its share of the cost of the well and then a 10% interest thereafter. In addition, North Canadian will earn an undivided 10% interest in 14,720 acres immediately surrounding the well and an 11¼% interest in an adjoining block of 32,280 acres.

The second foothills well in which the Company is involved is located at Scatter River in northeastern British Columbia. The drilling site is approximately 23 miles southwest of the prolific Beaver River Gas Field. With a projected drilling depth of 12,000 feet, its objective is a thick Devonian pay section similar to that found at nearby Beaver River where the recoverable reserves are estimated to be 1.5 trillion cubic feet and current production is approximately 240 million cubic feet a day. North Canadian's participation will earn the Company a 10% interest in the well and the surrounding 37,000 acres. In addition North Canadian owns a 1.875% gross overriding royalty under the well and an offsetting drilling location. The Scatter River well was started on February 23 of this year.

In the Northwest Territories where North Canadian owns an undivided 25% interest in 2.8 million acres, a farmout agreement covering 2.4 million acres was made in 1971 with a consortium of companies headed by Can Del Oil Ltd. The group, having completed additional seismic work, is now preparing to drill its second well. Their first well, drilled in 1972, was abandoned. The Can Del group earns an undivided 54% interest in pre-selected lands around each well drilled and has progressive options to drill as many as 8 additional wells, which would earn them an interest in the entire farmout block.



NORTHWEST TERRITORIES — 2.8 million acre land spread in which North Canadian holds a 25% undivided interest.

In the past year North Canadian has joined in partnership with several other Canadian companies in the filing of applications for concessions in three foreign offshore areas. These are off the Mediterranean coast of Spain near the Amposta Marino offshore oil field, Italian territorial waters 100 miles north of Tunisia's Ashtart oil field and offshore Bangladesh near the delta of the Ganges River. All of the concessions are considered to be good geological prospects. Awards are expected to be announced by the respective foreign governments during 1973. Ocean Resources, a company formed jointly with Asamera Oil Corporation in 1971 to seek offshore risk ventures, is not involved in the above applications.

In 1972 North Canadian drilled its first core hole in Nova Scotia to evaluate the presence of salt beds suitable for use as solution caverns for the storage of liquefied petroleum gas (LPG) and other products. Depth, thickness, and purity of the salt was determined to be highly satisfactory for cavern development. The proposed facilities, located near the major ice free port at the Strait of Canso, would be used to store large shipments of LPG's for trans-shipment into the eastern seaboard of the United States and to provide storage for local industries. The development of further plans is waiting the completion of a new feasibility study which will take into consideration the drastically changing energy situation in the northeastern United States. A growing interest in the project by potential participants over the past several months has been encouraging.

In 1972 North Canadian acquired, either by purchase or drilling, an interest in undeveloped lands in western Canada, totalling 40,000 gross acres. Interest in an additional 80,000 gross acres will be acquired by the Company as a result of its participation in the Nose Creek and Scatter River wells.

DEVELOPMENT

In 1972 the Company drilled sixteen development wells, all of which were successfully completed. These, plus an additional five wells, which were drilled late in 1971 but not completed, have now been placed on production.

North Canadian operates a total of 249 producing gas wells on its wholly-owned lands in the provinces of Alberta and Saskatchewan and has an estimated 245 proven drilling locations for future development. In addition, North Canadian is the designated operator of the Corbett Creek Viking gas field in which it holds a 42% interest.

PRODUCTION

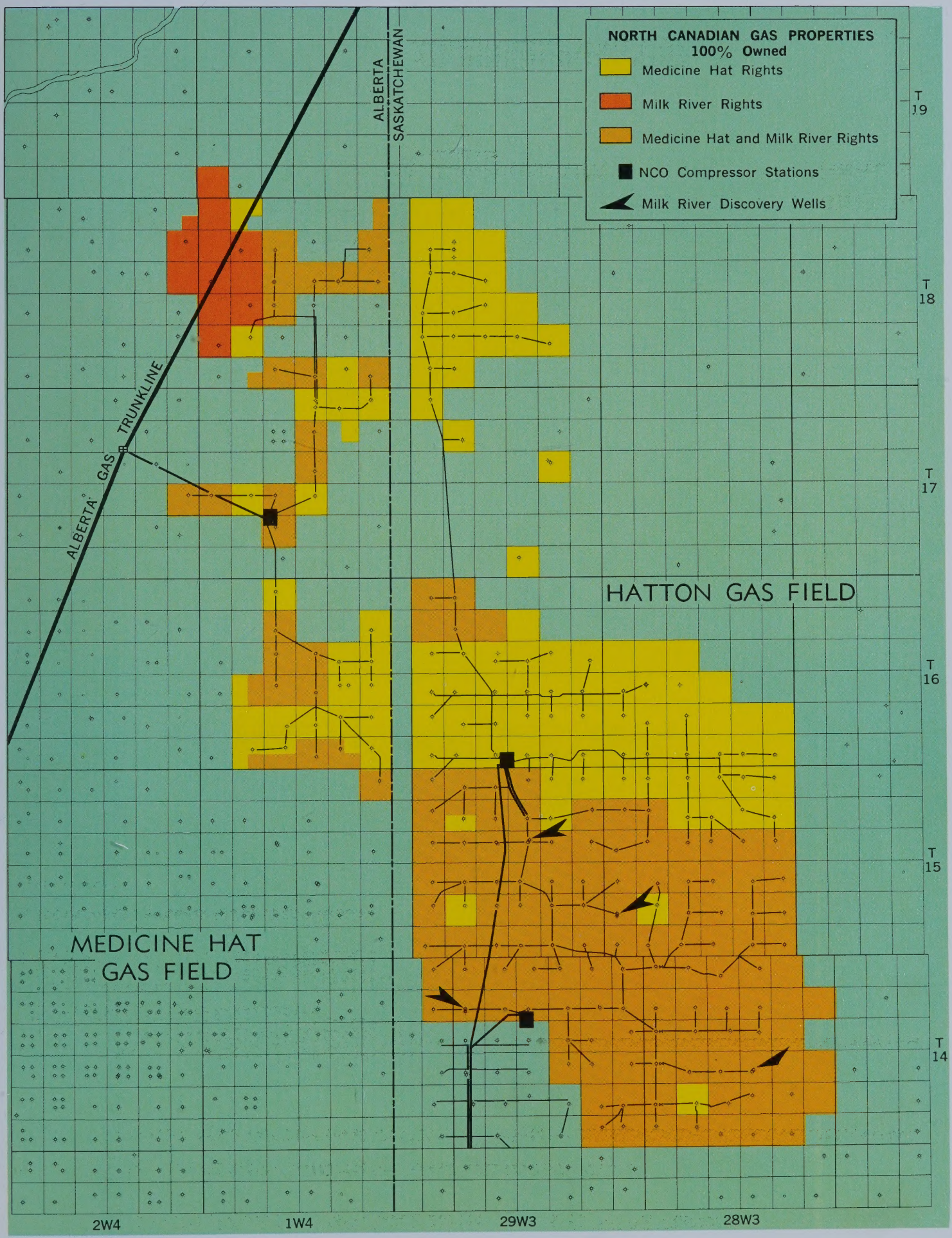
Total volume of gas delivered to the Saskatchewan Power Corporation and TransCanada Pipelines in 1972 was 14.3 billion cubic feet, an average of 39.2 million cubic feet a day. While total production was down by approximately 1%, because of a normal fluctuation in demand, revenue received for production was up by approximately 5%.

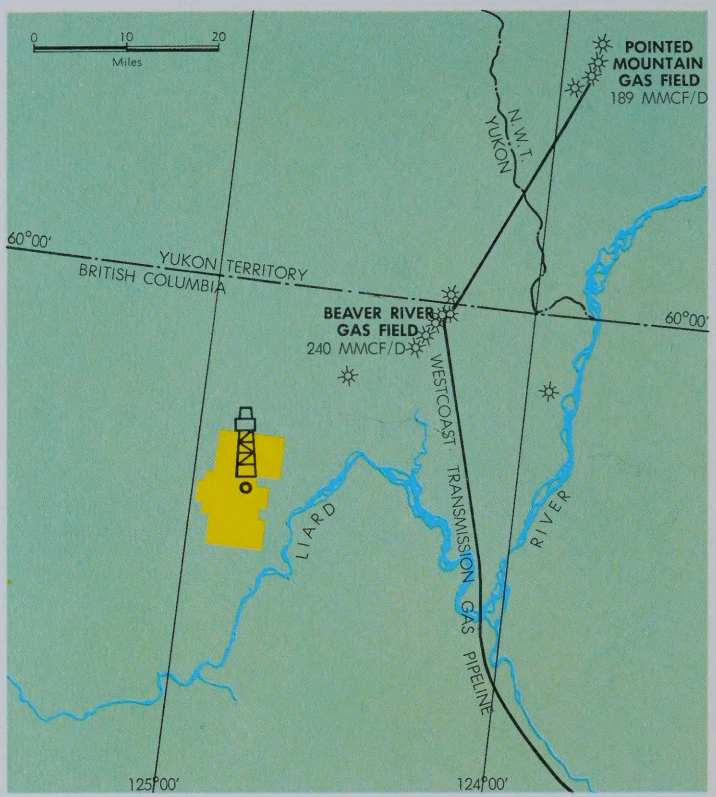
Oil production for the year averaged 188 barrels a day compared to 160 barrels a day in 1971. The daily production rate will be substantially increased in 1973 as the result of the recent acquisition by the Company of a producing sub-lease.

PIPELINE

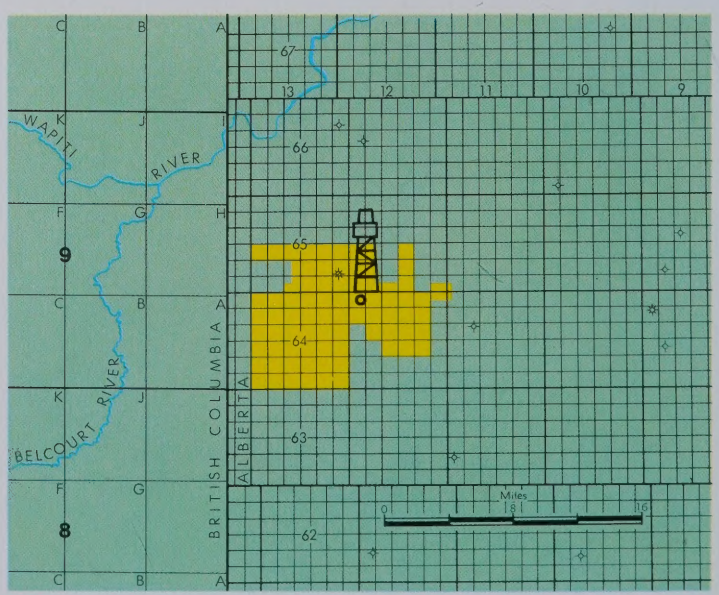
Gas sales from the Hinton pipeline, one of North Canadian's principal sources of revenue, increased by approximately 4% in 1972. Total volume for the year was 4.8 billion cubic feet. The 136 mile line, constructed in 1954 for the principal purpose of servicing the Company's exclusive gas supply contract with North Western Pulp & Power at Hinton, now also sells a substantial quantity of gas for the use of other consumers who are within economic reach of the line. Sales for domestic use increased by over 18% in 1972 indicating a healthy growth trend in the development of the potential sales area.

Gas for the Hinton line is purchased by North Canadian from several alternate sources. There is no foreseeable problem of supply.

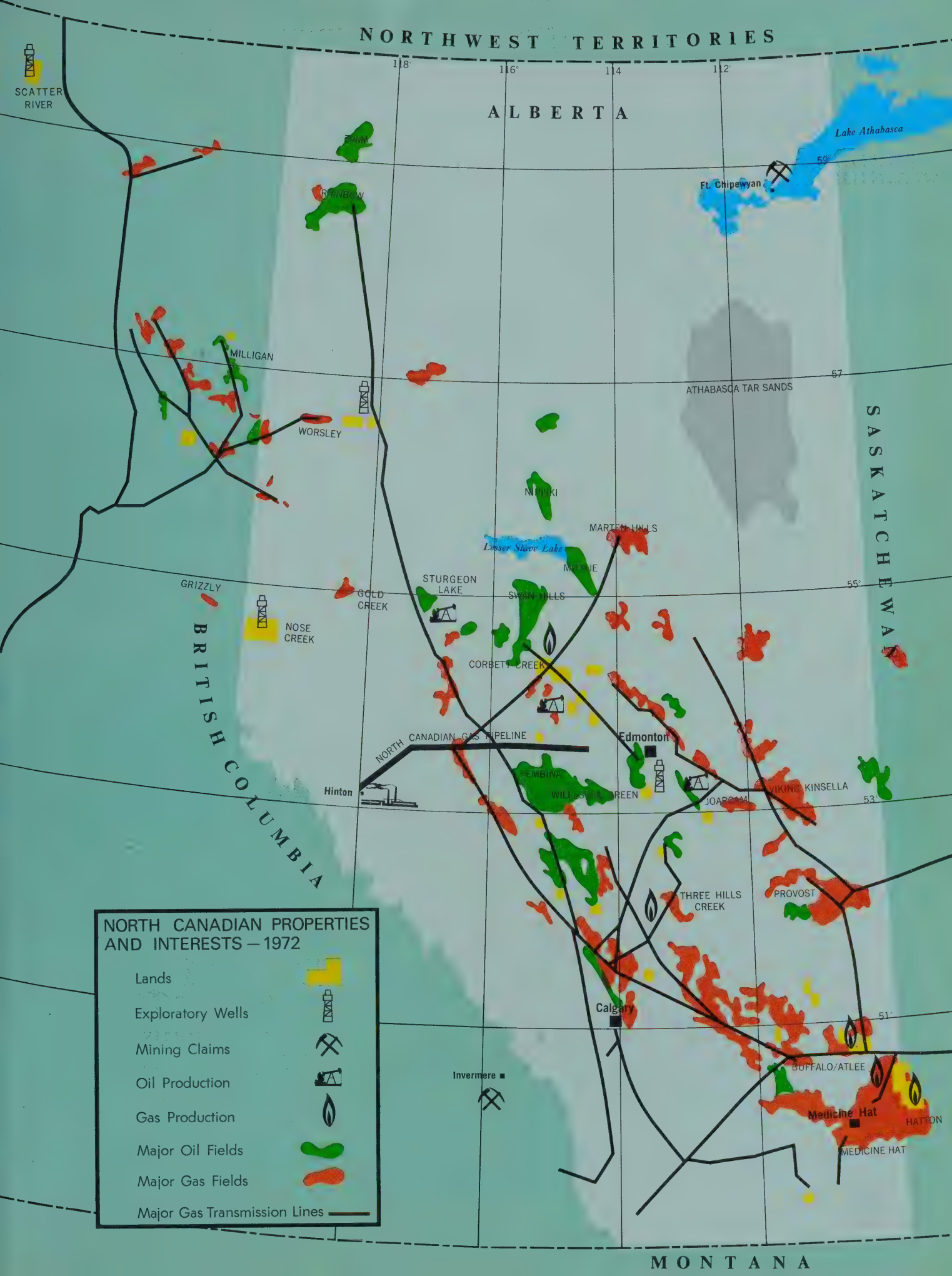

NORTH CANADIAN GAS PROPERTIES
100% Owned
Medicine Hat Rights
Milk River Rights
Medicine Hat and Milk River Rights
NCO Compressor Stations
Milk River Discovery Wells
ALBERTA
SASKATCHEWAN
ALBERTA GAS TRUNKLINE
HATTON GAS FIELD
MEDICINE HAT GAS FIELD
T 19
T 18
T 17
T 16
T 15
T 14
2W4
1W4
29W3
28W3



SCATTER RIVER — 12,000 foot Devonian prospect in foothills of northeastern British Columbia — 37,000 acres.



NOSE CREEK — 18,200 foot multi-zone prospect in foothills of western Alberta — 47,000 acres.


NORTHWEST TERRITORIES
ALBERTA
SASKATCHEWAN
BRITISH COLUMBIA
MONTANA
118°
116°
114°
112°
60°
57°
55°
53°
51°
SCATTER RIVER
RAINBOW
Lake Athabasca
Ft. Chipewyan
MILLIGAN
WORSLEY
ATHABASCA TAR SANDS
NIPISKI
MARTEN HILLS
Lesser Slave Lake
GRIZZLY
GOLD CREEK
STURGEON LAKE
SWAN HILLS
NOSE CREEK
CORBETT CREEK
NORTH CANADIAN GAS PIPELINE
Edmonton
Hinton
PEMBINA
WILLESDEN GREEN
VIKING KINSELLA
JOARCAM
THREE HILLS CREEK
PROVOST
Calgary
Invermere
BUFFALO/ATLEE
Medicine Hat
HATTON
MEDICINE HAT
NORTH CANADIAN PROPERTIES AND INTERESTS — 1972
Lands
Exploratory Wells
Mining Claims
Oil Production
Gas Production
Major Oil Fields
Major Gas Fields
Major Gas Transmission Lines

NORTH CANADIAN OILS LIMITED

BALANCE SHEET

DECEMBER 31, 1972
(with comparative figures for 1971)

ASSETS

	1972	1971
Current assets:		
Cash	$ 364,016	$ 446,868
Deposit receipts	—	400,000
Accrued interest receivable	493,423	494,159
Accounts receivable	565,125	601,917
Receiver General of Canada	150,000	—
Prepaid expenses	21,262	45,854
Total current assets	1,593,826	1,988,798
6% St. Regis Paper Company notes receivable, due January 1, 1984 (no quoted market value) (Note 2)	15,000,000	15,000,000
Investment in and advances to non-controlled companies, at cost (Note 3)	1,154,938	1,035,875
Property, plant and equipment (Notes 1 and 4):		
At cost	20,052,359	17,601,006
Accumulated depreciation and depletion	6,564,875	5,878,071
	13,487,484	11,722,935
Other assets, at cost	215,984	137,526
	$31,452,232	$29,885,134

On behalf of the Board:

Robert F. Reid, Director

Chas. H. Reid, Director

See accompanying notes to financial statements.

LIABILITIES

	1972	1971
Current liabilities:		
Accounts payable and accrued liabilitities	$ 441,957	$ 692,693
Income taxes payable	—	125,750
Long-term debt due within one year	453,408	452,954
Total current liabilities	895,365	1,271,397
Long-term debt (Note 5)	6,712,289	6,680,730
Deferred income taxes (Note 7)	729,000	711,000
Shareholders' equity:		
Capital stock (Note 6):		
5½% Cumulative redeemable preferred shares, par value $50 each; authorized 70,000 shares, issued 42,212 shares (1971 - 44,352 shares)	2,110,600	2,217,600
Common shares, par value $.25 each; authorized 7,500,000 shares, issued 5,618,329 shares (1971 - 5,602,497 shares)	1,404,582	1,400,624
	3,515,182	3,618,224
Capital redemption reserve fund	1,389,400	1,282,400
Contributed surplus (Note 6)	1,836,320	1,750,761
Retained earnings	16,374,676	14,570,622
	23,115,578	21,222,007
	$31,452,232	$29,885,134

See accompanying notes to financial statements.

NORTH CANADIAN OILS LIMITED

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1972
(with comparative figures for 1971)

	1972	1971
Revenue:		
Gross operating revenues	$ 4,081,239	$ 3,945,434
Less royalties	233,360	257,540
	3,847,879	3,687,894
Interest income	929,931	1,020,992
Building revenue and miscellaneous income	137,272	134,684
Gain on foreign exchange	18,875	14,919
	4,933,957	4,858,489
Expenses:		
Operating	1,405,774	1,289,099
Administrative (Note 8)	214,258	185,093
Interest on long-term debt	409,454	445,537
Dry holes and abandonments	2,190	80,284
Depreciation	415,437	403,002
Depletion	304,352	271,023
	2,751,465	2,674,038
Income before income taxes	2,182,492	2,184,451
Income taxes (Note 7):		
Current	134,486	320,450
Deferred	18,000	39,000
	152,486	359,450
Net income	$ 2,030,006	1,825,001
Net income per common share (after preferred dividends)	$.34	$.30

See accompanying notes to financial statements.

NORTH CANADIAN OILS LIMITED

STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1972
(with comparative figures for 1971)

	1972	1971
Balance, beginning of year	$14,570,622	$12,978,940
Add net income for the year	2,030,006	1,825,001
	16,600,628	14,803,941
Deduct:		
Dividends on preferred shares	118,952	124,819
Transfer to capital redemption reserve fund	107,000	108,500
	225,952	233,319
Balance, end of year	$16,374,676	$14,570,622

STATEMENT OF CAPITAL REDEMPTION RESERVE FUND

YEAR ENDED DECEMBER 31, 1972
(with comparative figures for 1971)

	1972	1971
Balance, beginning of year	$ 1,282,400	$ 1,173,900
Transfer from retained earnings	107,000	108,500
Balance, end of year	$ 1,389,400	1,282,400

See accompanying notes to financial statements.

NORTH CANADIAN OILS LIMITED

STATEMENT OF SOURCE AND USE OF FUNDS

YEAR ENDED DECEMBER 31, 1972
(with comparative figures for 1971)

	1972	1971
Source of funds:		
Net income	$ 2,030,006	$ 1,825,001
Add non-cash items included in net income:		
Depreciation and depletion	719,789	674,025
Deferred income taxes	18,000	39,000
Dry holes and abandonments	2,190	80,284
Funds provided from operations	2,769,985	2,618,310
Bank loan	500,000	—
Sales of fixed assets	17,578	5,372
Proceeds on issue of common shares	89,517	89,518
Total funds provided	3,377,080	2,713,200
Use of funds:		
Expenditures for property, plant and equipment	2,504,106	1,961,928
Investment in and advances to non-controlled companies	119,063	14,500
Increase in other assets	78,458	1,377
Reduction of long-term debt	468,441	468,289
Dividends on preferred shares	118,952	124,819
Redemption of preferred shares	107,000	108,500
Total funds used	3,396,020	2,679,413
Increase (decrease) in working capital	(18,940)	33,787
Working capital, beginning of year	717,401	683,614
Working capital, end of year	$ 698,461	$ 717,401

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1972

1. ACCOUNTING PRINCIPLES:

The Company follows the practice of capitalizing all leasehold acquisition, exploration and development costs and lease rentals on undeveloped properties. Costs pertaining to areas which are not productive or contiguous to productive areas are written off against income.

Natural gas producing properties and related development costs, together with the costs of the pipeline and gas gathering systems, are written off on a straight line basis over the life of existing gas contracts. The costs of successful petroleum producing properties and development, other than equipment costs, are written off by depletion charges on the unit of production method. Equipment costs and the office building are depreciated over the estimated useful lives of the assets.

2. 6% ST. REGIS PAPER COMPANY NOTES RECEIVABLE:

The notes may be converted into St. Regis common stock at $55 (U.S.) per share on or before January 2, 1974 and at $57 (U.S.) per share until January 2, 1976. The quoted market value of St. Regis common shares was approximately $45 (U.S.) at December 31, 1972 (1971 - $36 U.S.).

3. INVESTMENT IN AND ADVANCES TO NON-CONTROLLED COMPANIES:

Pursuant to an agreement, North Canadian Oils Limited joined with others in the formation of two companies for the purpose of participating in off-shore exploration ventures.

As at December 31, 1972, the Company had purchased 40,000 shares for an aggregate consideration of $40,000 and advanced $1,100,000 (U.S.), which amount is carried in the accompanying balance sheet at the equivalent rate of exchange in effect at the time of the advances.

4. PROPERTY, PLANT AND EQUIPMENT:

	1972		1971	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
Developed oil and gas rights	$ 6,642,891	1,898,974	6,154,713	1,622,304
Developed sub-lease	650,000	27,683	—	—
Undeveloped oil and gas rights	2,808,239	—	1,851,109	—
Lease and well equipment and related facilities	365,334	304,172	378,303	313,189
Pipelines and gathering systems	8,702,985	3,956,680	8,335,362	3,581,125
Undeveloped mining claims	124,206	—	122,815	—
Land	78,983	—	78,983	—
Office building	679,721	377,366	679,721	361,453
	$20,052,359	6,564,875	17,601,006	5,878,071

5. LONG-TERM DEBT:

	1972		1971	
	Due Within One Year	Long-Term Portion	Due Within One Year	Long-Term Portion
6% Series A Secured Notes maturing October 1, 1979	$225,000	$2,080,000	$225,000	$2,305,000
5½% Series B Secured Notes ($2,127,500 U.S., 1971 - $2,335,000 U.S.) maturing October 1, 1979	208,408	2,061,552	207,954	2,284,555
6% Mortgage, repayable in quarterly instalments of $5,000 plus interest, maturing March 1, 1977	20,000	65,000	20,000	85,000
Bank loan	—	2,500,000	—	2,000,000
5½% Mortgage, due March 5, 1982	—	5,737	—	6,175
	$453,408	$6,712,289	452,954	6,680,730

The bank loan is secured by $3,000,000 of 6% St. Regis Paper Company convertible notes, due January 1, 1984. Although the loan is subject to call on demand, the agreement requires repayment in June, 1974. The 6% mortgage is secured by the office building.

The Series A and B Notes are secured by a first mortgage on the Company's gas pipeline, its interest in certain gas fields and the related gas purchase and sales contracts.

Sinking fund instalments are required on October 1 of each of the following years:

	Series A (Canadian)	Series B (U.S.)
1973 to 1974 (inclusive)	$225,000	$207,500
1975 to 1978 (inclusive)	250,000	230,000
Balance in 1979	855,000	792,500

These notes may be redeemed prior to maturity at a premium of 3.0% (Canadian) and 2.74% (U.S.) until October 1, 1973. The premium then decreases .5 of 1% per year on Series A Notes and .46 of 1% on Series B Notes with no premium on redemptions made after October 1, 1978.

The current portion of the Series B Notes represents the Canadian dollar equivalent payable within one year. The long-term portion represents the Canadian dollar equivalent of United States dollars on the date of receipt.

6. CAPITAL STOCK AND STOCK OPTIONS:

Under the terms of issue of its preferred shares, the Company is required to purchase for cancellation 2,000 preferred shares in each year. The shares may be redeemed from the holders on 30 days notice at a premium of 1.75% of par value (reducing .25 of 1% per year to June 1, 1975) or purchased on the market. At December 31, 1972, requirements to June 1, 1972 had been met and in addition, 1,788 shares applicable to June 1, 1973 had been cancelled (2,140 shares were purchased and cancelled in 1972). The preferred share indenture imposes certain restrictions on the payment of common share dividends.

6. CAPITAL STOCK AND STOCK OPTIONS: — CONTINUED:

During the year the Company issued 15,832 common shares for a total consideration of $89,517 under the employees' stock option plan. Of the $89,517, $3,958 was credited to capital stock and $85,559 was credited to contributed surplus.

Payment for the shares issued under the stock options was accepted by the Company in the form of notes receivable. The notes which are secured by the purchased shares are non-interest bearing until they mature at which time they bear interest at 8%. They become due at the earlier of the date of voluntary termination of employment of the optionee, the date of sale of the purchased shares or ten years from the subscription date. The notes receivable in the amount of $179,035 ($141,650 of which is due from directors and officers) are carried on the balance sheet under the other assets.

At December 31, 1972 there remained outstanding options to purchase 13,336 shares and 2,500 shares of common stock at $5.61 and $5.89 per share respectively. The options become exercisable on April 30, 1973 and lapse on April 30, 1975. At December 31, 1972 there were 27,500 common shares reserved for future options under the plan.

7. INCOME TAXES:

For income tax purposes the Company is entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances in amounts which may exceed the related expenses reflected in its accounts. Undepreciated capital cost remaining to be carried forward and applied against future taxable income at December 31, 1972 is $3,000,000.

The Company provides for deferred income taxes on timing differences between depreciation and capital cost allowances. If the tax allocation basis had been followed for all timing differences between taxable income and reported income, additional deferred income taxes of $575,000 ($450,000 in 1971) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately $3,506,000 at December 31, 1972.

8. AMOUNTS PAID TO DIRECTORS AND SENIOR OFFICERS:

The aggregate direct remuneration paid or payable in 1972 to the directors and senior officers of the Company amounted to $111,610 ($102,970 in 1971). During the year there were a total of seven directors and four officers of whom two served in both capacities.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of North Canadian Oils Limited as of December 31, 1972 and the statements of income, retained earnings, capital redemption reserve fund and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1972 and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 28, 1973

Peat, Marwick, Mitchell & Co.
Chartered Accountants

SIX YEAR REVIEW

	1972	1971	1970	1969	1968	1967
Financial						
Revenue						
Sale of gas and oil	$ 4,081,239	$ 3,945,434	$ 3,443,992	$ 3,162,127	$ 2,766,602	$ 2,458,992
Less royalties	233,360	257,540	177,947	129,403	83,908	62,366
	3,847,879	3,687,894	3,266,045	3,032,724	2,682,694	2,396,626
Interest income	929,931	1,020,992	1,011,987	920,020	35,910	56,766
Building, rental and miscellaneous	156,147	149,603	163,026	101,515	110,784	90,197
	$ 4,933,957	4,858,489	4,441,058	4,054,259	2,829,388	2,543,589
Expenses						
Operating and Administrative expense	1,620,032	1,474,192	1,404,699	1,374,081	1,198,724	1,021,262
Interest expense	409,454	445,537	452,426	364,677	380,092	391,454
	$ 2,029,486	1,919,729	1,857,125	1,738,758	1,578,816	1,412,716
Cash generated by operations	2,904,471	2,938,760	2,583,933	2,315,501	1,250,572	1,130,873
Per common share	52¢	52¢	46¢	42¢	22¢	20¢
Depreciation and Depletion	719,789	674,025	591,670	538,517	498,122	440,981
Unproductive Development and Abandoned Leases	2,190	80,284	10,324	—	17,826	82,992
	$ 721,979	754,309	601,994	538,517	515,948	523,973
Income before Income Taxes and Extraordinary items	2,182,492	2,184,451	1,981,939	1,776,984	734,624	606,900
Income Taxes						
Current	134,486	320,450	452,390	185,000	29,779	—
Deferred	18,000	39,000	82,000	90,000	50,000	70,000
	152,486	359,450	534,390	275,000	79,779	70,000
Net Income before extraordinary items	$ 2,030,006	$ 1,825,001	$ 1,447,549	$ 1,501,984	$ 654,845	$ 536,900
Per Common Share	34¢	30¢	24¢	24¢	09¢	07¢
Extraordinary items - Gain (Loss)	—	—	—	*8,471,758	(14,390)	—
Per Share				1.52¢		
Net Income	$ 2,030,006	$ 1,825,001	$ 1,447,549	$ 9,973,742	$ 640,455	$ 536,900
Per Common Share	34¢	30¢	24¢	1.76¢	09¢	07¢
Working Capital	$ 698,461	$ 717,401	$ 683,614	$ 877,709	$ 275,289	$ 777,703
Investments	16,154,938	16,035,875	16,021,375	15,000,000	6,390,000	6,390,000
Property and Equipment - Net	13,487,484	11,722,935	10,520,688	9,507,595	8,081,230	7,580,650
Long Term Debt	6,712,289	6,680,730	7,149,019	6,610,431	6,079,656	6,469,975
Shares Outstanding						
Common - par value 25¢ per share	5,618,329	5,602,497	5,586,665	5,586,665	5,586,665	5,561,390
Preferred - par value $50 per share	42,212	44,352	46,522	49,101	49,801	51,916
Shareholders' Equity	$23,115,578	$21,222,007	$19,540,807	$18,351,973	$17,029,064	$16,580,595
Cost of Finding & Developing Reserves						
Exploration	1,034,530	1,305,385	313,679	290,586	64,854	49,424
Development	1,426,713	600,745	1,243,793	1,733,963	953,514	1,138,392

*Gain on sale of investment in North Western Pulp & Power Ltd.

Production and Sales						
Natural Gas Sales						
Production - billion cubic feet	14.3	14.5	11.9	9.8	6.7	5.6
Pipeline - billion cubic feet	4.8	4.6	4.4	4.6	4.3	3.9
Total Sales - billion cubic feet	19.1	19.1	16.3	14.4	11.0	9.5
Average per day - million cubic feet	52.4	52.4	44.7	39.5	30.1	26.0
Oil Production - barrels	68,919	58,540	54,929	54,154	71,632	66,229

DIRECTORS

PAUL H. AUSTIN
President,
Mercantile Bank of Canada,
Montreal, Quebec

C. M. HAMILTON
Consultant,
Calgary, Alberta

MARSHALL A. JACOBS
Lawyer
New York, New York

ROSS A. MacKIMMIE, Q.C.
Lawyer,
Calgary, Alberta

CLIVE H. REID
Calgary, Alberta

IVAN SUTHERLAND
Vice-President
North Western Pulp and Power
Hinton, Alberta

ROBERT F. RUBEN
Calgary, Alberta

OFFICERS

ROBERT F. RUBEN
President

JAMES W. DOWDEN
Vice-President, Exploration

NATHAN GOODMAN
Vice-President, Production

CLIVE H. REID
Secretary-Treasurer

KEY PERSONNEL

W. K. MILLER
Manager, Gas Transmission

B. L. COOK
Land Manager

W. E. MacDOUGALL
Chief Accountant

CAPITAL

7,500,000 Common Shares having a Par Value of Twenty-five Cents per Share

Issued 5,618,329 Shares

70,000 Preferred Shares having a Par Value of $50.00 per Share

Issued 42,212 Shares

COMMON SHARE REGISTRARS

GUARANTY TRUST COMPANY OF CANADA Calgary, Alberta

THE BANK OF NOVA SCOTIA TRUST COMPANY OF NEW YORK . . . New York City, U.S.A.

COMMON SHARE TRANSFER AGENTS

GUARANTY TRUST COMPANY OF CANADA Calgary and Toronto

THE BANK OF NOVA SCOTIA TRUST COMPANY OF NEW YORK . . . New York City, U.S.A.

PREFERRED SHARE REGISTRAR AND TRANSFER AGENTS

GUARANTY TRUST COMPANY OF CANADA Calgary and Toronto

COMMON SHARES LISTED

AMERICAN STOCK EXCHANGE

TORONTO STOCK EXCHANGE

PREFERRED SHARES LISTED

TORONTO STOCK EXCHANGE Toronto

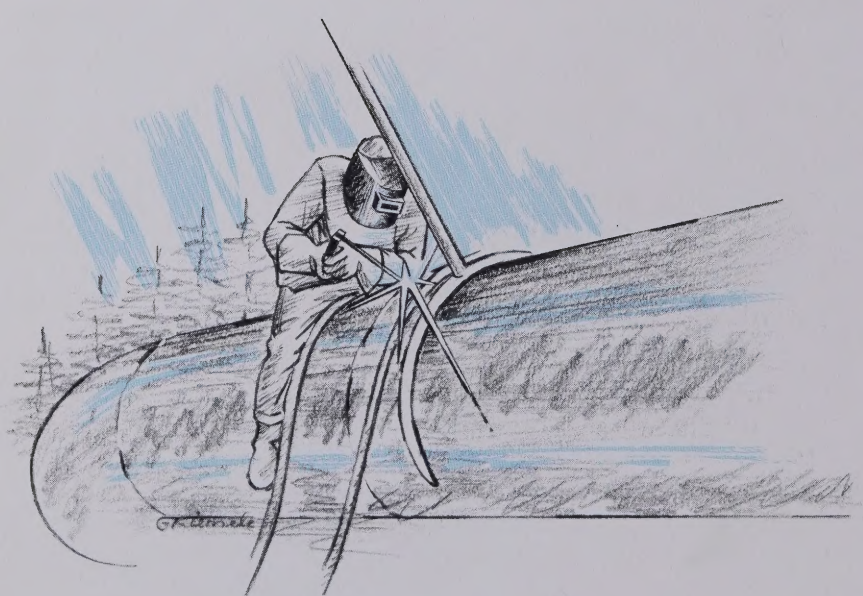
AUDITORS

PEAT, MARWICK, MITCHELL & CO. . . . Calgary, Alberta

HEAD OFFICE

640 SEVENTH AVENUE SOUTHWEST . . . Calgary, Alberta

The trading in the common shares of North Canadian is exempt from the United States interest equalization tax applicable to the purchase of foreign securities by United States citizens.



NORTH CANADIAN OILS LIMITED 640 Seventh Avenue Southwest, Calgary, Canada T2P 0Y5

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